

**ELECRICITY COMPANIES CAPITAL STRUCTURE DETERMINANTS IN
MALAYSIA**



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CHAPTER ONE

INTRODUCTION.

1.1 Background of Electricity Companies

Electricity Company can be define as an entity recognized by governmental law to installs, operates, and maintains electric supply.

Stewart Martin Cooper in his study called "Stakeholder communication and the Internet in UK Electricity Companies" has separated the electricity industry in England and Wales into three parts name as generating capacities, transmission network and supply and distribution.

In Malaysia, the existence of the entity named as the Independent Power Producer or IPP who are focusing their business activities in generating electricity and sale the generated unit to the government controlled utility company.

IPPs may be privately-held facilities, cooperatives such as rural solar or wind energy producers, and non-energy industrial concerns capable of feeding excess energy into the system.

The electricity transmission network in UK is owned by the different public listed company. Different scenario happens in Malaysia where the National Grid management and the distribution of the generated electricity unit are also controlled by the government.

In general, the electricity companies needs to purchase assets is either to replace the obsolete assets or because of the new necessity for them to accomplish their operation.

CHAPTER TWO.

LITERATURE REVIEW

2.1 Introduction.

The study to ascertain the capital structure and its determinants has been done by many researches. Modigliani and Miler (1958, 1963) found the value of the firm was unaffected by the level of the company's debt when the company is operating in the perfect capital market condition with no taxes and transaction cost associated with the raising capital or going bankrupt. Under the above condition, internal and external sources of finance are perfect substitutes. When tax excluded in the theory, there is no net benefit for the company to use the financial leverage. This is because the extra return to the shareholders is offset by the increase level of risk.

2.2 Static Trade –off Theory.

The trade of theory was derived from the Miller's and Modigliani (1963) hypothesis of capital structure irrelevance and suggest that firm choose their optimal capital structure by trading off the benefit and costs of debt and equity.

The investors are preferred to accept lower before-tax return on stock than bond when the interest income was taxed at the higher rate. The above finding was proven by Miller (1977) when he extended the theory to include the personal taxes.

The deductibility of interest expenses for the income tax favors the use of debt financing Kraus and Litzenberger(1973).

Kraus and Litzenberger(1973) challenged the assumption of perfect capital market which was introduced earlier by Modigliani and Miler. Kraus and Litzenberger suggest that in the imperfect market, the companies' capital structure can form by

CHAPTER THREE.

RESEARCH METHODOLOGY.

3.1 Introduction.

This chapter covers the sample, the research data, the hypotheses to be tested and analysis of data for the current study. The measurement of the variables used is also explained.

3.2 Sample and Research Data.

The sample for this study consists of 4 companies from the utility sectors focusing on electricity as their end product listed on main and second board of the Bursa Malaysia (formerly known as Kuala Lumpur Stock Exchange). Data that are used for this study are collected from respective company annual report, the KLSE companies' annual handbooks, the KLSE website at www.klse.com.my and investors digests. Only the companies which have a sufficient data are included in the sample.

3.2.1 Sarawak Energy Berhad

Sarawak Energy Berhad or SEB. Formerly known as Sarawak Enterprise Corporation Berhad. The Group's principal activities are generating, transmitting, distributing and selling electricity. Operations are carried out principally in Malaysia. Sarawak Energy Berhad was incorporated in 1967 as Dunlop Estates Bhd and listed on the Main Board of Bursa Malaysia Securities Berhad (formerly known as the Kuala Lumpur Stock Exchange, KLSE) in the same year. It changed its corporate name from Dunlop Estates Berhad to Sarawak Enterprise Corporation Berhad on the 31 January of 1996. It assumed the name Sarawak Energy Berhad on 31 March